

The Director of Central Intelligence

Washington, D. C. 20505

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17 April 1985

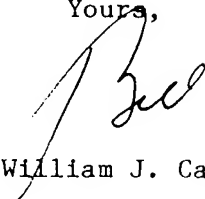
The Honorable J. William Middendorf II
United States Permanent Representative
to the Organization of American States
Department of State
Room 6494
Washington, D. C. 20520

Dear Bill,

As you know from our previous discussions and exchange of letters, I concur with your concerns about Latin America. In recent months we have noted some progress, albeit still slow. Exports from countries such as Brazil have increased, in large measure as a result of the economic recovery here, and allowed for some rise in imports while maintaining the positive improvement in trade balances.

The movement toward more healthy investment practices is slow, however, and I agree that we should take every opportunity to push for reform in this area.

Yours,


William J. Casey



SUBJECT: Letter to The Honorable J. William Middendorf II, U.S.
Representative to the Organization of American States

NIO/Econ/DL:rn



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*I don't have a
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action, do you?*



United States Department of State

United States Permanent Mission to the
Organization of American States

Washington, D. C. 20520

Executive Regis

February 22, 1985

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Dear Bill:

As a friend of the OAS, and one who is interested in preserving freedom in our hemisphere, your help is needed in addressing a grave problem facing us south of the border. The continuing economic deterioration of most countries in Latin America can have dangerous security ramifications and indeed, the resulting poverty and high unemployment has the potential to open the door to the usual vulture-style Soviet/Cuban-supported subversion. In that regard, Central America is receiving most of the focus today, but many of the countries in the southern hemisphere may again become vulnerable if substantial economic growth does not come soon.

Further, the difficulties of handling approximately \$350 billion of debt could disastrously affect the banking systems of the West, and in the resulting acrimony, might turn traditional friends against us, diverting attention from the Soviet-Cuban-Nicaraguan threat to Central America.

Most of the recovery in Latin America at the moment can be attributed to a one shot sharp reduction in imports and belt-tightening under IMF guidance, rather than true economic expansion. For long-term growth, major structural changes are needed.

Perhaps, at the root of Latin economic troubles is the shortage of capital. Domestic savings have not found a generally hospitable local investment environment and have fled most of these countries, and foreign direct investment has generally not found this area attractive either. The root problem has been the parastatal-government intervention approach in many of these countries. Vast numbers of money-losing government-owned enterprises dominate many of the economies of the biggest debtor nations, and the huge resulting deficits have caused enormous inflation rates. According to its own government, Bolivia's annual inflation rate for 1984 was 2,177%, and other sources now report it as being over 10,000%, the highest in the world; Argentina's last year was 688%.



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The Inter-American Development Bank has estimated that over the next 15 years, Latin America will have to create 100 million new jobs at a cost of over \$12,000 per job to take care of the expected population growth. Over half the population of Mexico and many other countries is now under 20 years of age. This \$1.2 trillion of new capital, quadruple the amount the Latins were able to attract in new bank loans over the last decade, can only come from savings and new investments. This is not an impossible task, but it will only come about if Latin America moves dramatically to make itself attractive for both local investors to keep their money there and for new outside investors to want to come there.

Recently, we addressed this issue head-on at the di Tella Institute, a leading think-tank in Buenos Aires. (A copy is enclosed.) In addition, we have introduced the subject into the OAS Economic and Social Council, where it will now be a major focus of official attention. All of us who want to see a secure and economically-viable Latin America must spread the word that the free market and a viable private sector without undue government interference works. President Reagan has shown us the way here. Can you help carry this message south of the border with your contacts? Our own long-term survival as a nation may depend on it.

Sincerely, .

Bill

J. William Middendorf, II
Ambassador
Permanent Representative

Enclosure:

As stated

The Honorable
William J. Casey,
Director of Central Intelligence.

Current
Policy
No. 638

The Role of Investment in Latin America's Economic Future

November 19, 1984



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by Ambassador J. William Middendorf II, U.S. Permanent Representative to the Organization of American States (OAS), before the Torcuato di Tella Institute of Argentina, Buenos Aires, Argentina, November 19, 1984.

It is a pleasure for me to be here with you today, since our discussion is a visible example of the indomitable nature of democracy. I say this because, as U.S. Secretary of State George P. Shultz said at our recently concluded OAS General Assembly, democracy unites the people of the Americas more than anything can divide them. Democracy is becoming the primary bond in this hemisphere—both within nations and among them—precisely because it is a means of managing differences, of reconciling conflicts, of building strength out of diversity. We in the United States also believe that democracy could bring the New World's historic but, as yet, incomplete promise of freedom and plenty closer to fruition for all our citizens.

In short, democracy is the only problem-resolving process that permits free competition of ideas and lets the marketplace—in this case, the polity—decide what the best solutions are. It is also the only process that, in the long run, can deal competently and justly with the “politics of economics.”

I am, therefore, optimistic about the future of the hemisphere, even though the challenges in the “politics of economics” are, indeed, daunting.

The Next 15 Years

According to an Inter-American Development Bank study, between now and the year 2000, Latin America and the Caribbean will have to create 100 million new jobs, all other things being equal. The average cost for creating one new job in the region is \$12,500. Simple arithmetic tells me that somehow \$1.25 trillion in capital will have to be generated.

These numbers are difficult enough to face by themselves but become even more sobering in the context of the present international economic environment, which is characterized by a difficult-to-manage debt structure and low prices for traditional exports and politically expedient but economically counterproductive fiscal, monetary, and statist investment policies found not only in our own hemisphere but also in other parts of the world. The effect of such policies is quite clear—high rates of inflation, low productivity, and capital flight.

If nations do not move to adjust their economies to current conditions, they face the risk of recreating the conditions reflected in the old Moscow workers' joke, “We pretend to work, and they pretend to pay us.” The second part of the joke may already exist in a few countries in the region in the form of high inflation caused, in large part, by governments' propensity to print money faster than the economy can grow. Under conditions of high inflation caused by undue monetary growth—combined with relatively high levels of government ownership of enterprises—asking for and receiving higher wages is